

**Amicus Energy Conference  
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**Introduction:**

I am pleased to be here this morning and I want to publicly welcome the publication of this Green Paper on Energy. In the next couple of months we will be formulating our response to the Green Paper. I want to take this opportunity of thanking Jerry Shanahan for agreeing to chair a special sub-committee of our Executive Council who will work with my colleague, Liam Berney, in formulating this response.

The recently concluded Social Partnership agreement *Towards 2016* is different from its predecessors for two reasons. First of all it contains an All Ireland dimension and secondly it takes a medium term view of policy development. This is particularly important in the context of energy policy which is so vital to all our futures.

**The Three Pillars of the Green Paper**

As you know the Government's Green Paper is constructed on three pillars namely:

- Security of Supply;
- Environmental Sustainability;
- Economic Competitiveness

I want to take a short time this morning to offer some preliminary reflections on each of these pillars.

**Environmental Sustainability**

I would tend to take a slightly different perspective than the Green Paper in relation to the definition of sustainability. It clearly affects the environment and indeed the question of climate change cannot be separated from the question of energy security. But it must also be related to economic growth. Because of our legacy of unemployment in this country we have pursued the maximisation of economic growth as a first priority of policy for the last 20 years. We have been extremely successful in this and growth continues at a high level. Indeed, there was an article in the *Irish Times* last week penned by Dan O'Brien, the Irish representative of the Economist Intelligent Unit, in which he forecasts a continuing bright future for Ireland strategically placed as it is between the United States and mainland Europe. His argument was that we are very well poised to continue to benefit from the integration of the Atlantic markets. That may very well be but what does economic growth mean for us? To what extent have we looked at the forward consequences and tried to prepare ourselves for those consequences? The Central Statistics Office has forecast that by the year 2026 the population of the Republic will have grown from its current level of just over 4 million to 5.5 million. Think about it! This is a phenomenal change. It will largely be the product of continuous inward

migration and it will mean our population will consist of about 18 per cent of non nationals making us one of the most diverse populations in the world. The implications of this particular profile are worthy of discussion in themselves but they are for another day.

In an energy context the Green Paper proposes to diversify our sources of energy for electricity generation such that by 2020, 30 per cent of our energy will be supplied by renewables. This is a formidable challenge. It would be a formidable challenge in a steady state situation but in a market for energy expanding in line with the requirements of this increasing population it is scarcely achievable. We also have to consider certain other limiting factors, for example, the availability of wind turbines which are in scarce supply in the world market place.

The immediate problem Ireland has with respect to energy is our incredibly high dependence on oil which amounts to 67 percent of the total. The NCB Stockbrokers reported last week that in the time period under consideration the number of cars in the country is likely to double. Presumably also the number of houses will continue to grow at the rate 80,000 plus per annum in line with that increase in population. The implications of these two factors – oil for transport and oil for house heating – will itself involve perhaps an increasing dependency nationally on imported oil.

It has seemed to me for some time that we ought to take a more critical view of economic growth. In short my conclusion is that we should try to optimise it rather than to maximise it for its own sake. We have to consider what the benefits of economic growth actually are. Does it matter, for example, that we achieve a certain level of wealth by the year 2015 or if we delay it somewhat to the year 2019? Of course it is in our interests to ensure that economic growth is maintained at a level which maintains full employment but the costs of maintaining high growth rates beyond that need at least to be debated in public. The critical point is surely focussed in terms of our energy demand and our continuing contribution to climate change.

### **Economic Competitiveness**

The Green Paper, and indeed the Deloitte report on which it is based, make the point that 70 percent of the cost of electricity in excess of the EU average in Ireland is due to an unfavourable fuel mix. Looking at the argument in favour of the current policy of promotion of competition one has to ask the question of whether, if the objective is to diversify from gas, that competition would not have to take place in this context. Everybody pays the same amount for fuel; everybody pays the same amount for equipment so where is the advantage to come from? Would it not be the case that the cost effectiveness of competition might be outweighed by the cost of efficiency gain? The point is made in the Deloitte report that 80 percent of ESB generating capacity is available at any time. This is a complex issue relating to maintenance and also relating to the nature of the plant and the system. But competition will change investment strategy and the argument is that a better result overall in terms of price efficiency might well be made by allowing for investment decisions which put more high merit plant into the system. Deloitte estimates that €100 million is being wasted by the ESB at present. In

absolute terms this is a huge sum but modest in the context of total costs in the industry. It is worth reflecting that the recently agreed 20 percent price increase will effectively generate an additional €600 million in revenue. If all of the staff of the company were to work from now on for no wages the ESB would still need an increase because the staff cost is €500 million. These are huge figures of course but they do lend something of a perspective to the discussion. In any event the €100 million that Deloitte identifies as waste needs some critical examination. It is largely legacy issues and not an ongoing cost. To change matters to take it out of the system would itself cause some cost. In reality this is more a chimera than a reality. Deloitte seems to be aware of this. On page 13 the point is made that:

*“Whilst development of competition itself will not immediately change the fuel diversity situation and its impact on generating costs, having considered various alternatives, we believe that the introduction of competition would provide a catalyst for a more rapid improvement in levels of O&M costs, productivity, availability, flexibility of operation and innovation. Private sector players would themselves be incentivised to lower costs and maximise value for shareholders at all times. Coupled with a strong regulatory presence, it should also provide a more conducive environment for the entry of new generation capacity, allow the retirement of older uneconomic facilities and thereby improve the overall cost and technical ability of Ireland’s generation fleet.”*

This hardly amounts to a guarantee of reduced prices in the future. Relying on a catalyst which *might* incentivise other people to take measures which *might* again in turn improve competition is fairly dubious. The reality is that the rate of return which new entrants to the market would need to achieve to make it worth their while to enter a small market effectively will keep prices up. That has been the experience to date. Why not for example have a fuel variation charge for electricity instead of the 20 per cent rise recently granted. This could accurately reflect the real cost of primary fuels over a period. It is hard to explain why electricity prices are rising now that oil prices are falling. The answer is that the private electricity companies would not accept it. It would have too much uncertainty built into it for their rate of return and cash flow requirements.

One might also ask whether the Irish people are aware of the full cost of maintaining an elaborate regulatory structure in order to artificially create a market in Ireland.

### **Security of Supply**

The British Economist and electricity expert, Dieter Helm (who recently addressed the Fianna Fail Party) wrote an article in the ESRI a couple of years ago in which he made a compelling case against the model of regulation adopted by the European Union noting its unintended consequence of reducing market participation in Europe to three large companies. What he said was that Europe erred in adopting uncritically the British model of regulation. He argued that Ireland was too small a market to apply this model to. He said that it would be much better if Ireland could be considered as part of a UK regional market with which it must be interconnected anyway. There was a report in the *Financial Times* on 12 October quoting a report by Capgemini consultants in which they noted that excess of supply over peak demand in Europe has dropped 4.8 percent over the

past year leaving Europe more vulnerable from a security of supply perspective. They attributed this deterioration to the competitive and commercial regime operating in Europe indicating that this had eroded the margin referred to above. Electricity is like no other commodity. Whether in Europe or in Ireland as a country we cannot afford a market failure. The economic and political cost of this would be catastrophic.

We are attempting here to frame an energy policy at a time of very great uncertainty in the world:

- The evidence of climate change is manifest;
- China and India are changing the world order in terms of both energy demand and pollution;
- We are facing significant population expansion;
- The role of the United States as hegemon is being called into question by the failure of its Middle East strategy;
- As a consequence security issues seem likely to be a continuing factor in energy policy.

Against this background it seems to me that security of supply of energy is the most significant challenge we face. The logic of this demands that ESB remains a fully integrated entity in public ownership so that it can continue, as it has successfully done for 80 years, to be an instrument of public policy.

### **Conclusion**

There are some things in the Green Paper which we welcome and some bad. Indications from the Government that it will maintain a vertically integrated electricity supply board in public ownership are welcome. Consideration of handing ESB land assets as an incentive to others to enter the market are less welcome. There may be some limited scope for this but doing it on a wholesale basis indicated in the Deloitte report is not acceptable. It is not clear whether this particular feature has been imported in whole into the Green Paper but there is little doubt that a move on a large scale would be seen as serious asset stripping of the ESB.

The biggest problem I have with the regulation of the electricity market is that it seems to me that both in Europe and at home control of competition policy has been effectively ceded to liberal zealots. Let me give you an example of what I mean. For the last six months or more we have been in correspondence and discussion with the Competition Authority here on behalf of a small group of people, actors by profession, who do commercial voiceovers. The Competition Authority has taken the view that these people are undertakings rather than workers and will not allow them to collectively bargain the rates which apply for the work they do. In many cases the work amounts to payments of

no more than a little bit over the minimum wage. It is a bizarre experience to see the amount of detailed legal argument on file which has built up in this question and the quite impenetrable resistance of the Competition Authority. By contrast in the last few days they have allowed by default a huge commercial merger to take place and nothing at all is said about it. What they are doing to the people I represent amounts to persecution. I absolutely abhor the way the Competition Authority goes about its business and the fact that it pursues it on such an orthodox liberal basis. The Deloitte report proposes some powers for the Competition Authority in relation to the electricity market. I sincerely hope that this does not happen. I have no confidence in those people and they have proved themselves to be both uncaring and incompetent.

The problem with neo-liberal zealots is that sometimes their actions create distinctly illiberal outcomes. The concentration of the electricity market down to three major companies in Europe is one case in point, higher prices in Ireland for electricity is another. Creating a private monopoly in aviation may be another.

For Congress the last few weeks have been a revelation and a serious caution against relying on Government or anyone else to defend strategic state assets.

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